



# City of Seattle

## Office of City Auditor

Susan Cohen, City Auditor

September 4, 2002

The Honorable Greg Nickels  
Seattle City Councilmembers  
City of Seattle  
Seattle, Washington 98104

Dear Mayor Nickels and City Councilmembers:

Enclosed is our report on the *Seattle Chinatown International District Preservation and Development Authority Compliance (SCIDPDA) Review*. The Office of City Auditor initiated this review, as the fourth review in a series on City-chartered public development authorities, to ensure that SCIDPDA was in compliance with its responsibilities as a public corporation providing important facilities and services to the International District community. The Office of City Auditor was also interested in ensuring that SCIDPDA was in compliance with the Bond Payment Guaranty Agreement given the City's potential liability for the tax-exempt, guaranteed bonds.

Based on the audit review, we concluded that SCIDPDA significantly contributed to the economic, social, and cultural viability of Seattle's Chinatown International District. SCIDPDA preserved historic properties, rehabilitated and renovated older buildings and developed new facilities in the International District. SCIDPDA was also in compliance with the majority of requirements set forth in Seattle Municipal Code Chapter 3.110 and its policies and procedures.

SCIDPDA's Executive Response, contained in the report addendum, identifies action steps that will be taken to maintain full compliance with City requirements. We appreciate the excellent cooperation received from SCIDPDA management during our review. If you have any questions regarding this report or would like additional information, please contact me at 233-1093. To improve our work, we ask our readers to complete and return the evaluation form at the back of this report.

Sincerely,

Susan Cohen  
City Auditor

SC:SB:DN:MBB:tlb

Enclosure



Office of City Auditor, Key Tower, Suite 2410, 700 Fifth Avenue, Seattle, WA 98104-5030

Tel: (206) 233-3801, Fax: (206) 684-0900, TTY: (206) 615-1118

Email: [auditor@ci.seattle.wa.us](mailto:auditor@ci.seattle.wa.us), Website: [cityofseattle.net/audit](http://cityofseattle.net/audit)

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**SEATTLE CHINATOWN INTERNATIONAL DISTRICT  
PRESERVATION AND DEVELOPMENT AUTHORITY  
COMPLIANCE REVIEW**

**September 3, 2002**

**Project Team: Dan Nygaard, Assistant City Auditor  
Michelle Bates-Benetua, Audit Intern**

**Audit Manager: Susan Baugh**

**City Auditor: Susan Cohen**

**City of Seattle**

700 Fifth Avenue, Suite 2410  
Seattle, Washington 98104-5030



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## **CHAPTER 1: INTRODUCTION AND BACKGROUND**

Seattle's Chinatown International District is one of the City's oldest neighborhoods and serves as a cultural hub for Asian Americans. In 1975, the City of Seattle chartered the Seattle Chinatown International District Preservation and Development Authority (SCIDPDA). SCIDPDA's mission included:

- Preserving the unique cultural and ethnic characteristics of the International District;
- Renovating deteriorating historic facilities; and
- Providing housing and economic opportunities within the community, beginning with the rehabilitation of the historic (then transient) Bush Hotel in the early 1980s.

Seattle Municipal Code Chapter 3.110 and SCIDPDA's unique City charter include a series of provisions that govern the agency as a public corporation, and establish its management structure. SCIDPDA's rules and regulations, management and internal controls, and other miscellaneous requirements also guide its operations. Our review focused on SCIDPDA's compliance with these policies and procedural requirements.

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### **RESULTS IN BRIEF**

Consistent with its charter and mission, SCIDPDA significantly contributed to the economic, social, and cultural viability of Seattle's Chinatown International District. SCIDPDA preserved historic properties, rehabilitated and renovated older buildings and developed new facilities in the International District. SCIDPDA also generally complied with the requirements set forth in Seattle Municipal Code Chapter 3.110 and its policies and procedures.

Two exceptions were identified during the review related to SCIDPDA's non-compliance with the City's Bond Payment Guaranty Agreement for Village Square I. The Bond Payment Guaranty Agreement required SCIDPDA to notify the City when net rental income, total expenses and net operating income for Village Square I varied more than 5 percent from pro forma budget projections. Total expenses exceeded the pro forma budget annually and net operating income fell below the pro forma budget during three of the first four years of Village Square I's operation. Annual variances ranged from a low of 59 percent to a high of 303 percent in excess of projected total expenses and from a high of 35 percent to low of -76 percent for projected net operating income (Exhibit 3 contains additional information on pro forma budget variances). SCIDPDA did not notify the City and a formal corrective action plan was not developed to restore compliance.

SCIDPDA is also required to maintain a \$300,000 balance in the Village Square I Operating Reserve Account. We found that the Operating Reserve Account balance for Village Square I fell below \$300,000 in March 2000. However, SCIDPDA restored the fund balance to \$300,000 in June 2002. SCIDPDA was unable to comply with pro forma budget and operating reserve account requirements due to unanticipated litigation expenses associated with the construction of the Village Square I.

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## BACKGROUND

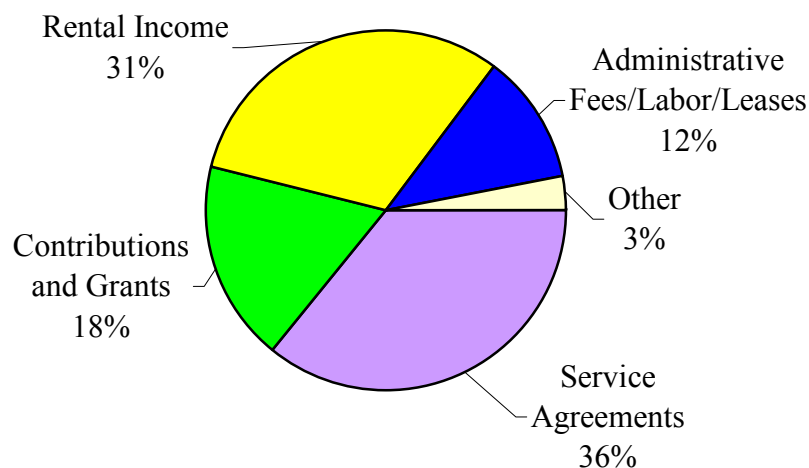
Since 1972, the City of Seattle has chartered public development authorities to provide housing and health care for low- and moderate-income and elderly residents; to preserve historical districts and buildings; and to construct, renovate, and/or manage a public market, art museum, and monorail. As public corporations, the nine public development authorities are able to preserve, rehabilitate, and construct facilities at reduced costs due to the advantage of tax-exempt, City-guaranteed bonding authority.

The Revised Code of Washington (RCW) authorizes the City of Seattle to create and regulate public development authorities. Public development authorities are distinct agencies responsible for their own operations and finances. RCW 35.21.745 requires the City to “control and oversee their operations and finances to correct any deficiencies and to assure that the purposes of each agency are reasonably accomplished.” Pursuant to State law, the Office of City Auditor initiated this review to ensure that SCIDPDA was in compliance with its responsibilities as a City-chartered public corporation providing important facilities and services to the International District community. The Office of City Auditor was also interested in ensuring that SCIDPDA was in compliance with the Bond Payment Guaranty Agreement, since the City is liable for the tax-exempt, guaranteed bonds in the event of a default.

SCIDPDA’s 12-member Board of Directors is comprised of business and community leaders. The Mayor appoints four Board Members, and the SCIDPDA Board and SCIDPDA constituency each elect four Board Members. The Board of Directors is responsible for hiring an executive director to oversee SCIDPDA’s daily operations. SCIDPDA currently has 55 employees. (Appendix 1 contains SCIDPDA’s organizational chart.)

SCIDPDA reported total assets of approximately \$23.5 million and total liabilities of approximately \$17.1 million in 2001. SCIDPDA’s 2001 operating revenues totaled approximately \$3.68 million. As displayed below in Exhibit 1, service agreements and rental income represented 67 percent of SCIDPDA’s 2001 operating revenues.

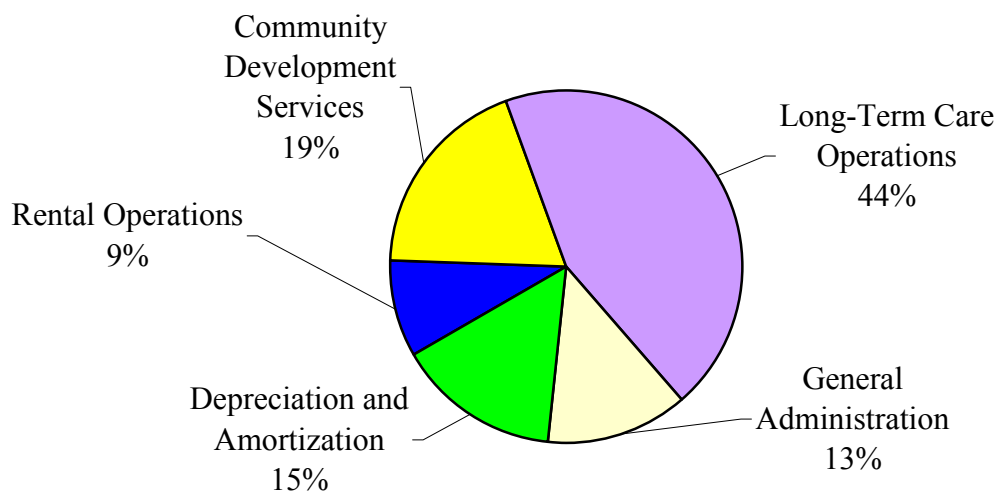
**EXHIBIT 1**  
**2001 SCIDPDA OPERATING REVENUES**





SCIDPDA's 2001 operating expenses totaled approximately \$3.36 million. Expenses incurred for SCIDPDA's long-term care operations and community development services represented 63 percent of its 2001 operating expenses as displayed in Exhibit 2 below.

**EXHIBIT 2**  
**2001 SCIDPDA OPERATING EXPENSES**



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**SCOPE AND METHODOLOGY**

In March 2002, we initiated the review of SCIDPDA as the fourth study in a series on City-chartered public development authorities. We focused on SCIDPDA's compliance with Chapter 3.110 of the Seattle Municipal Code pertaining to public corporations as well as its charter, rules and regulations, management and internal controls, and reporting requirements. We also evaluated SCIDPDA's financial policies and practices to determine whether they were consistent with the City's Bond Payment Guaranty Agreement for Village Square I. (Appendix 2 summarizes the requirements reviewed by the audit staff.)

The review of the Seattle Chinatown International District Preservation and Development Authority was conducted between March and July of 2002 in accordance with generally accepted government auditing standards.



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## CHAPTER 2: SCIDPDA COMPLIANCE REVIEW

The Office of City Auditor conducted this study to determine SCIDPDA's compliance with its City charter, mission, and policies and procedures. Based on the review, SCIDPDA generally complied with the relevant governance policies and other requirements. We determined that SCIDPDA significantly contributed to the preservation of historic properties and development of new facilities in the International District. The two exceptions identified during the review were related to SCIDPDA's non-compliance with the City's Bond Payment Guaranty Agreement for Village Square I.

**CONCLUSION 1: SCIDPDA generally complied with its City charter, ordinances pertaining to public corporations, and internal policies, rules, and procedures; and significantly contributed to the preservation of historic properties and the development of new facilities for the International District community.**

Audit staff reviewed 82 requirements, displayed in Appendix 2, relevant to SCIDPDA's purpose as a public corporation, and the internal policies and practices specific to its operations. We determined that SCIDPDA complied with 77 (94 percent) of the requirements. Specifically, SCIDPDA achieved:

- Full compliance with the requirements set forth in SCIDPDA's mission and purpose; composition of the Board of Directors; appointments to the Board, officers and committees; meetings of the constituency; and administrative provisions related to the Board's official business activities.
- Full compliance with requirements to establish SCIDPDA accounting, personnel, and technology policies and procedures.
- Partial compliance with requirements relating to Board meetings; changing the time and location of regular meetings by Board resolution; filing annual audited financial statements by June 30; and filing a statement prohibiting discrimination.
- Non-compliance with the City and SCIDPDA Bond Payment Guaranty Agreement. (Conclusions 2 and 3 contain further information regarding the two Bond Payment Guaranty Agreement compliance issues.)

With the exception of the compliance issues related to the Bond Payment Guaranty Agreement, we determined that the other compliance issues were relatively minor and did not pose a financial risk to the City. Furthermore, SCIDPDA's management team addressed or planned to address these compliance issues during the process of revising its policies and procedures related to accounting, personnel, records retention, information technology, and leadership practices.

## **SCIDPDA Significantly Contributed to the International District Community**

Consistent with its charter and mission, the Seattle Chinatown International District Preservation and Development Authority (SCIDPDA) significantly contributed to the preservation of historic properties, the rehabilitation and renovation of older buildings, and development of new facilities in the International District. SCIDPDA enhanced the viability of the International District by owning and managing properties, developing affordable housing and promoting community developments efforts, and providing services. According to the Strategic Planning Office's 2002 *Report on Seattle's Public Corporations*, SCIDPDA owns or manages seven buildings that include:

- Bush Hotel—SCIDPDA renovated, owns and manages this historic hotel that provides 94 units of affordable housing, retail space, offices for human services agencies and community meeting space.
- Bush Hotel Annex—SCIDPDA owns and manages this renovated garage that now houses an Asian museum, Asian American theatre, and retail flower shop.
- New Central Apartment Building—SCIDPDA redeveloped and manages this mixed-use facility that contains 28 residential units for low-income elderly and other qualified tenants, as well as commercial/retail and office space.
- Jackson Apartments—SCIDPDA manages 17 federally subsidized housing units and commercial space.
- Northern Pacific Hotel—SCIDPDA manages 62 affordable housing units and commercial space.
- Eastern Hotel—SCIDPDA manages 46 units of housing and commercial space.
- International District Village Square I—SCIDPDA developed, owns and manages this nationally recognized, multicultural, intergenerational facility that serves 20,000 people annually. A daycare, employment services, health and human services, independent senior housing, senior assisted-living, and retail space are offered in the Village Square I facility.

In addition to historic preservation and property development activities, SCIDPDA provides culturally responsive services to low-income elders living in the International District and the region through Legacy House. Legacy House provides a unique continuum of services including the only assisted living facility in Washington that serves only Medicaid seniors. In addition, Legacy House offers an adult day health program as well as an off-site congregate and home delivery nutrition program.

SCIDPDA's Community Action Partnership (CAP) is a national model for public safety partnerships between the community and the Seattle Police Department. CAP provides a forum to address public safety issues, engaging business and property owners, residents, service organizations, and police to promote the safety and security within the International District community.

SCIDPDA is currently developing the second phase of the International District Village Square, a mixed-use facility that will provide 57 units of low-income family housing, a branch library, community center and gymnasium, retail space, and parking.

**CONCLUSION 2: SCIDPDA did not comply with the City’s Bond Payment Guaranty Agreement requirement to notify the City and propose a corrective action plan when Village Square I’s net rental income, total expenses or net operating income varied more than 5 percent from the pro forma budget.**

In 1998, SCIDPDA began operating Village Square I to serve low-income, elderly residents, children, and families. The Village Square I project was budgeted at \$17.6 million with financing secured through federal, state, and local government, private foundations, banks, and private contributions.<sup>1</sup> SCIDPDA also issued \$9 million in tax-exempt bonds, guaranteed by the City of Seattle, to finance the development of Village Square I.

The Bond Payment Guaranty Agreement between the City of Seattle and SCIDPDA requires SCIDPDA to immediately notify the City if the Village Square I net rental income, total income, total expenses or net operating income in any fiscal year varies by more than 5 percent from the projections on the pro forma budget. (The pro forma budget, included in the Bond Payment Guaranty Agreement, identifies the expected annual revenues, expenditures and net operating income for the operation of Village Square I and payment of City-guaranteed bonds.) The Agreement also states that SCIDPDA shall propose a corrective action plan within forty-five (45) days after identifying any pro forma budget variance.

| <b>EXHIBIT 3</b>  |             |             |             |             |
|---|-------------|-------------|-------------|-------------|
| <b>VARIANCE BETWEEN VILLAGE SQUARE I PRO FORMA BUDGET PROJECTIONS AND ANNUAL AUDITED STATEMENTS (1998 to 2001)</b>  |             |             |             |             |
|   | <b>1998</b> | <b>1999</b> | <b>2000</b> | <b>2001</b> |
| <b>Rental Income</b>  | -27%        | -3%         | -7%         | -2%         |
| <b>Total Revenue</b>  | 42%         | 27%         | 6%          | 18%         |
| <b>Total Expenses</b>   | 59%         | 303%        | 96%         | 139%        |
| <b>Net Operating Income<br/>(with Litigation)</b>   | 35%         | -76%        | -28%        | -28%        |
| <b>Net Operating Income<br/>(without Litigation)</b>  | 35%         | 33%         | 5%          | 19%         |
| <b>Sources:</b> <i>SCIDPDA Independent Auditors’ Reports</i> , 1998 through 2001, and Exhibit F—Village Square I Pro Forma Budget, Bond Payment Guaranty Agreement, 1996. |             |             |             |             |

Exhibit 3 illustrates the variances between SCIDPDA’s audited financial statements and the pro forma budget for Village Square I. With the exception of the 1999 and 2001 rental income, total revenue, total expenses and net operating income reported for Village Square I varied by more than 5 percent from pro forma budget projections. Total expenses exceeded the pro forma budget annually and net operating income fell below the pro forma budget during three of the first four years of Village Square I’s operation. Annual variances ranged from a low of 59 percent to a high of 303 percent in excess of projected total expenses and from a high of 35 percent to low of -76 percent for projected net operating income (Appendix 3 contains a

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<sup>1</sup>The City of Seattle, State of Washington, King County, U.S. Department of Housing and Urban Development, the Paul Allen Foundation, Key Bank, the Local Initiatives Support Corporation, Federal Home Loan Banks, and others provided grants and donations for the Village Square I development.

comparison of the Village Square I pro forma budget projections and the annual audited statements.)

From 1999 to 2001, SCIDPDA's total annual expenses for Village Square I exceeded projections due to litigation expenses incurred to settle a claim filed by the general contractor and two subcontractors.<sup>2</sup> Additional litigation expenses were also incurred to settle SCIDPDA's cross-claim against the general contractor and architect for defective materials and workmanship at Village Square I.<sup>3</sup>

SCIDPDA was required to notify the City if Village Square I rental income, total expenses and net operating income varied significantly from the pro forma budget during the past four years. SCIDPDA or the City was then required to propose a formal corrective action plan to restore compliance with the Bond Payment Guaranty Agreement. SCIDPDA informally discussed the sale of Transfer Development Rights to help cover litigation expenses, however, neither SCIDPDA nor the City initiated formal corrective action on this issue.

**CONCLUSION 3: SCIDPDA Did Not Comply with the City's Bond Payment Guaranty Agreement for maintaining a minimum balance of \$300,000 in the Village Square I Operating Reserve Account.**

The Bond Payment Guaranty Agreement between the City of Seattle and Seattle Chinatown International District Preservation and Development Authority (SCIDPDA) requires SCIDPDA to establish and maintain a Village Square I Operating Reserve Account. This account is intended to cover operations and maintenance expenses, reasonable and necessary expenses to own and operate the facility until the residential and non-retail portions are fully leased, or pay debt service on the bonds. SCIDPDA established the Village Square I Operating Reserve Account, but did not maintain a minimum \$300,000 account balance between March 2000 and June 2002.

The Bond Payment Guaranty Agreement also requires SCIDPDA to maintain at least \$300,000 in the Village Square I Operating Reserve Account. Although the agreement stipulates the conditions under which SCIDPDA may withdraw funds from the Operating Reserve Account, SCIDPDA must maintain the \$300,000 minimum account balance. By December 2001, however, the Operating Reserve Account balance fell below \$21,000, which was only 7 percent of the required reserve amount. In June 2002, SCIDPDA restored the Operating Reserve Account balance to the required \$300,000 minimum.

SCIDPDA experienced unanticipated litigation expenses associated with the Village Square I project cost overruns and defective workmanship. SCIDPDA withdrew more than \$477,000 from the Operating Reserve Account between November 1999 and December 2001 to pay for the one-time litigation expenses. If SCIDPDA had not incurred these litigation expenses, it is likely

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<sup>2</sup>In 1997, the general contractor and two subcontractors for the Village Square I project filed claims for payment in excess of the lump sum contractual amounts due to changes in the project scope and project delays that contributed to significant cost overruns.

<sup>3</sup>SCIDPDA's claim was related to the exterior cladding system of the building, which showed signs of failure.

that SCIDPDA would have met or exceeded the \$300,000 minimum Operating Reserve Account balance based upon historical practices.

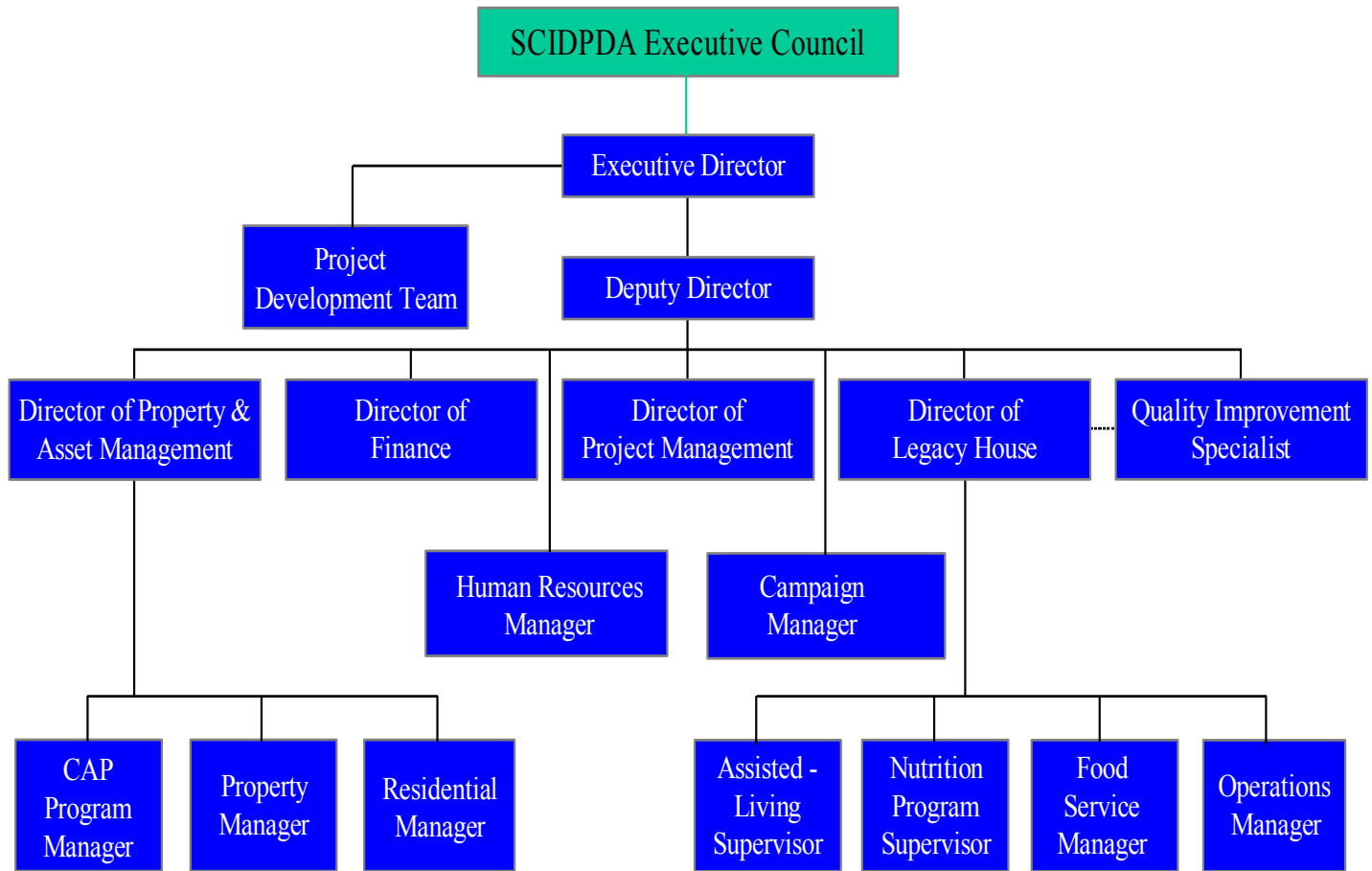
The City's Department of Finance may want to increase its oversight of contractually required reserve account balances to ensure that the account balances for projects funded by tax-exempt, guaranteed bonds are maintained at minimum levels. This is particularly important for SCIDPDA due to its current plans to ask the City to guarantee additional bonds for an amount up to \$12 million for the development of Village Square II. SCIDPDA also has current plans to purchase the New Central Apartment Building and to make extensive repairs to the earthquake-damaged Bush Hotel. As demonstrated with Village Square I, it is not unusual to incur unanticipated expenses in the acquisition and development of capital projects. (Appendix 4 contains a risk overview for SCIDPDA's operating issues and capital projects.)

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## **ACTION LIST**

1. SCIDPDA should maintain required reserve account balances to ensure that projects funded by tax-exempt, guaranteed bonds are maintained at minimum levels. The Department of Finance should review contractual bond requirements on an annual basis to ensure that SCIDPDA meets its obligations.
2. SCIDPDA should immediately notify the PDA Coordinator and the Department of Finance when the Village Square I net rental income, total revenues, total expenses or net operating income varies by more than 5 percent from the Village Square I pro forma budget or when account balances are less than the contractually required minimum balances.
3. SCIDPDA should propose or the Department of Finance should develop a formal corrective action plan within forty-five (45) days after determining that variations in actual revenues and expenses have exceeded five (5) percent from the Village Square I pro forma budget.
4. SCIDPDA should consult with the Department of Finance and the City's bond counsel to investigate the possibility of updating the Bond Payment Guaranty Agreement to reflect current revenues, expenditures and economic conditions.

**APPENDIX 1**  
**SEATTLE CHINATOWN INTERNATIONAL DISTRICT PRESERVATION  
AND DEVELOPMENT AUTHORITY ORGANIZATIONAL CHART BY DIVISION**



## APPENDIX 2

### SEATTLE CHINATOWN INTERNATIONAL DISTRICT PRESERVATION AND DEVELOPMENT AUTHORITY COMPLIANCE MATRIX

| Full Compliance   |               | Partial Compliance |  | Non-Compliance |
|---|---------------|--------------------|--|----------------|
| ACTIVITIES/REQUIREMENTS   | IN COMPLIANCE |                    | COMMENTS   |                |
|   | YES           | NO                 |  |                |
| MISSION AND PURPOSE   |               |                    |  |                |
| Conserve and renew unique cultural and ethnic characteristics of the International District.  |               |                    | SCIDPDA currently owns and/or manages seven buildings that provide housing, retail, office, and gathering space for community-based and cultural agencies that serve International District businesses and residents.                                  |                |
| Promote and encourage the rehabilitation, and development of structures and open spaces, as well as redevelop surrounding areas that may affect the character of the community.   |               |                    | The Bush Hotel, the Bush Annex, and Village Square I are examples of rehabilitation and development projects within the International District.  |                |
| Continue to create opportunities for local businesses and property owners, residents, and visitors to carry on traditional community activities.                                  |               |                    | SCIDPDA manages the largest portfolio of housing and commercial properties in the International District that serve businesses and residents within the community.   |                |
| Upgrade structures and public amenities in and around the International District.   |               |                    | SCIDPDA renovated the building that now houses the Wing Luke Asian Museum, the Northwest Asian American Theatre, and a flower shop.  |                |
| Encourage programs to expand food retailing, especially the sale of ethnic products.  |               |                    | SCIDPDA provides affordable space for vendors and food retailers, and supports the work of the Business Improvement Area on business development issues.   |                |
| Expand and preserve the residential community, especially for low-income people.  |               |                    | SCIDPDA manages 45 HUD Section 8 subsidized residential units in the Jackson Apartments and New Central Apartment Building, and 62 affordable housing units in the Northern Pacific Hotel. Village Square I also contains low-income housing units.    |                |
| Promote the survival and predominance of small shops, ethnic businesses and other enterprises, activities and services.   |               |                    | SCIDPDA currently owns and/or manages 187,000 square feet of commercial/retail space that houses small and ethnic businesses. Tenants include both businesses and social and health agencies.  |                |
| Develop and operate a community service center.   |               |                    | Legacy House offers a multicultural adult day health program, a community food program, and other social and recreational activities. A library, gym, and community center are planned for Village Square II.  |                |
| Initiate and carry out studies to determine what kinds of programs will fulfill the stated goals.   |               |                    | SCIDPDA has conducted studies, as needed; to provide background information and market analysis needed for facilities development projects.  |                |
| COMPOSITION OF THE BOARD  |               |                    |  |                |
| Three of the 12 Board Members are appointed annually; one each selected by the Mayor, the SCIDPDA Board, and constituency for a four-year term and confirmed by the City Council. |               |                    | SCIDPDA provided audit staff with a current roster of Board Members appointed by the Mayor, SCIDPDA Board and constituency along with their committee assignments. New SCIDPDA Board appointments were confirmed by the City Council on June 25, 2002. |                |
| New Board Members will be reappointed and confirmed at the annual Board meeting that falls closest to the anniversary of the charter issuance.                                    |               |                    | New Board Members usually begin serving at the end of the year, but may start attending meetings earlier to ensure continuity of service.  |                |



| ACTIVITIES/REQUIREMENTS   | IN COMPLIANCE |    | COMMENTS   |
|---|---------------|----|--|
|   | YES           | NO |  |
| Board Members will hold office for staggered terms, limited to two successive four-year terms.  |               |    | The Administrative Assistant updates the Board roster annually.  |
| The electing body has two months to fill a vacancy. If that time passes, the Board fills the position.  |               |    | SCIDPDA submits nominations to the Mayor and the City Council in a timely manner.  |
| If necessary, Board Members are removed after three consecutive absences from regular meetings and after a vote by the rest of the Board.                           |               |    | No SCIDPDA Board Members have been removed.  |
| Appointments to the Board are made 30 days before the next term begins.   |               |    | SCIDPDA initiates Board appointments in December.  |
| <b>BOARD MEETINGS</b>   |               |    |  |
| Regular Board meetings are on the third Monday of each month at 5:15 p.m. at Legacy House.  |               |    | Regular meetings confirmed. A board retreat substituted for the regular meeting in October 2001  |
| The time and location of regular meetings may be changed by Board resolution.   |               |    | The date for monthly Board meeting was changed in May 2001 and the start time was changed in November 2002. These changes were not confirmed by Board resolution.  |
| The Board Chair or any two members may call special meetings.   |               |    | SCIDPDA Board has not scheduled special meetings.  |
| Notice of meetings is provided if schedule or location is changed.  |               |    | SCIDPDA provides adequate notice in the event of scheduling changes.   |
| Meetings are convened with a quorum of at least seven Board Members.  |               |    | No quorum for the February 2001 and March 2002 Board meetings and no action taken. Six to 11 Board Members and five to 12 staff generally attend each Board meeting.                                     |
| At least one-third of the voting membership is defined as a majority.   |               |    | SCIDPDA defines one-half of the voting membership as a majority.   |
| All meetings are public, but the Board may call for a closed executive session.   |               |    | An executive session was scheduled at the March 2002 meeting to discuss real estate matters.   |
| Board Members vote in person rather than by proxy, mail, or telephone.  |               |    | No evidence of proxy, mail, or telephone voting.   |
| <b>APPOINTMENTS TO THE BOARD, OFFICERS AND COMMITTEES</b>   |               |    |  |
| Appointments to the Board are made annually at the regular meeting that precedes the Board meeting at which the incoming class of Board members commences its term. |               |    | SCIDPDA makes appointments to the Board after Mayoral and City Council nominations.  |
| The Nominating Committee is comprised of appointees drawn from a list of applicants nominated by the Board Chair.   |               |    | Executive Committee nominates Board Members.   |
| Board Officers include the Chair, Vice-Chair, Treasurer, and Secretary.   |               |    | Current SCIDPDA officers include a President, Vice-President, Secretary, and Treasurer.  |
| Officers may only hold one office at a time.  |               |    | No Board member has simultaneously held multiple offices.  |
| Officers are elected at the first Board meeting after the term for new members commences. Offices are held for one-year terms until a successor is elected.         |               |    | SCIDPDA provides suggested nominations, but timing of appointments to the Board may lag prior to official appointments and confirmation. Officers are usually elected in the fourth quarter of the year. |

| ACTIVITIES/REQUIREMENTS   | IN COMPLIANCE |    | COMMENTS  |
|---|---------------|----|---|
|   | YES           | NO |   |
| Chair holds the usual executive powers, (presides at meetings, signs and executes deeds, bonds, contracts, etc., for the corporation).  |               |    | The Board President holds executive powers. The President and five Board Members are authorized to sign checks.   |
| The Vice-Chair acts in place of the Chair and assumes other responsibilities as necessary.  |               |    | Vice-President assumes responsibilities as chair as necessary.  |
| The Secretary handles notices, records minutes, and maintains corporate books, reports and the responsibility for the corporate seal.   |               |    | The Board Secretary handles administrative matters for the Board.   |
| The Treasurer assumes custody and responsibility for all funds and investments, keeps the books, and files a fidelity bond in an amount determined by the Board before taking office. The Treasurer holds office only as long as the bond is in effect. |               |    | The Board Treasurer sits on the Finance Committee, which reviews all checks issued per month, on a monthly basis.   |
| Officers may be removed from office by a majority vote.   |               |    | No officers have been removed from office.  |
| The Board fills vacancies of officers.  |               |    | SCIDPDA Board voted in the slate of candidates proposed by the Executive Committee.   |
| The committees that represent and act on behalf of Board are comprised of three or more members.  |               |    | SCIDPDA provided a list of subcommittees along with the Board roster. Only the Project Advisory Committee and Executive Committee act on behalf of the Board. These committees have three or more members.    |
| <b>MEETINGS OF THE CONSTITUENCY</b>   |               |    |   |
| Regular meetings are held quarterly: The third Monday of the month in March, June, September, and December directly following the Board meeting.  |               |    | SCIPDA facilitates constituency meetings, despite low attendance, which is interpreted as satisfaction with the SCIDPDA. As many as 20 people have attended meetings about public safety and vagrancy issues. |
| When necessary, special meetings of the constituency are called by 10 percent of the constituency, the Chair, or by six Board members.  |               |    | Special meetings have not been necessary.   |
| Notices of meetings are advertised 15 days prior to meeting in <i>The International Examiner</i> and <i>The Chinese Post</i> . Notices are posted at the Municipal Building and mailed to the constituency.   |               |    | Notices are also advertised in the <i>Northwest Asian Weekly</i> .  |
| Business is transacted with a quorum (25 members or 20 percent of the constituency).  |               |    | Due to low membership, limited business is transacted, but information is exchanged about Board resolutions and Board Members are nominated.  |
| In accordance with the Open Public Meetings Act, all meetings are open to the public.   |               |    | All meeting are open to the public.   |
| Members of the constituency vote in person rather than by proxy or mail.  |               |    | No evidence of proxy or mail voting.  |
| <b>ADMINISTRATIVE PROVISIONS</b>  |               |    |   |
| The Board maintains records of its meetings.  |               |    | Audit staff obtained copies of January 2001 to March 2002 minutes.  |
| The Board indemnifies each current or former Board member whether serving as a Board member or officer.   |               |    | SCIDPDA provided a copy of the director's liability certificate.  |

| ACTIVITIES/REQUIREMENTS   | IN COMPLIANCE |    | COMMENTS  |
|---|---------------|----|---|
|   | YES           | NO |   |
| Copies of the minutes must be made available to any person who requests them.   |               |    | SCIDPDA provides meeting minutes upon request.  |
| Community members may address the Board at public meetings.   |               |    | Community members address the Board at public meetings as well as informally.   |
| The Board must hold a semiannual public meeting to review all significant decisions and events, and to announce plans for the next six months.  |               |    | Informal review and discussion held quarterly at Board meetings to review all significant decisions and events, and to announce plans for the next six months.  |
| SCIDPDA may conduct activities outside of the City of Seattle when deemed appropriate to benefit the community.   |               |    | SCIDPDA does not conduct business outside of community, but staff members are active in relevant work such as home loan bank policy and community development.  |
| The public is allowed access to SCIDPDA records and information.  |               |    | Documents are available to the public. Most required documents are on file with the City Clerk's Office.  |
| By March 31, SCIDPDA's annual report for the preceding period is to be filed with the City Clerk and will include activities undertaken and planned for the following year, and information on operations, a capital budget, resolutions, a statement of income and expenditures. |               |    | SCIDPDA filed an annual report, including appropriate contents, with the City Clerk's Office in 2002.   |
| By April 15, 2002, or within two weeks following appointment for Board Members, current Statements of Economic Interest are to be filed with the City Clerk's Office for all Board Members, and executive, professional, and administrative staff.                                |               |    | SCIDPDA sent their 2002 Statements of Economic Interest to the City Clerk's Office on March 19, 2002. The City Clerk's Office has confirmed receipt of SCIDPDA's 2002 Statements of Economic Interest.  |
| By June 30, 2002, audited financial statements must be submitted to both the City Clerk's Office and the Department of Finance if unaudited financial statements were submitted with annual report.   |               |    | The 2001 Independent Auditors' Report was completed June 28, 2002 and was filed July 16, 2002. SCIDPDA resent the 2000 Independent Auditors' Report to the City Clerk's Office on July 16, 2002. The 1999 Independent Auditors' Report was filed in October 2000. The 1998 Independent Auditors' Report was filed in December 1999. |
| Any changes made to the Preservation and Development Authority (PDA) rules and regulations are to be filed with the City Clerk with copies submitted to the Department of Finance ten days prior to effective date.   |               |    | SCIDPDA has not made changes in its rules and regulations partially due to the difficulty in filing the necessary paperwork.  |
| A statement of compliance with the requirements of Seattle Municipal Code 3.110.260—Discrimination Prohibited—must be filed with the City Clerk's Office.   |               |    | SCIDPDA provides a statement of compliance in its policies and procedures handbook, and plans to add a statement in the next annual report.   |
| All Board appointments must be submitted for confirmation by the City Council 60 days before the term of predecessor expires.   |               |    | City Council may wait to take action until a larger pool of appointees is available and waits until the Mayor approves his appointees.  |
| Informational copies of all appointments submitted for confirmation are sent to the Department of Finance.  |               |    | Appointments were sent to the PDA Coordinator, currently located in the Department of Finance.  |
| The Mayor and the City Council must be informed of all PDA Board and constituency meetings.   |               |    | Meeting notices are sent to the PDA Coordinator for distribution.   |

| ACTIVITIES/REQUIREMENTS   | IN COMPLIANCE |    | COMMENTS  |
|---|---------------|----|---|
|   | YES           | NO |   |
| Informational copies of meeting notices and minutes must be sent to the PDA Coordinator.  |               |    | Meeting notices and minutes are sent to the PDA Coordinator for distribution.   |
| Per Seattle Municipal Code 3.110.390, SCIDPDA must post liability statements at their principal office, and include statements on all contracts, bonds, and other documents that may entail debt or liability.  |               |    | SCIDPDA provided copies of their liability policies, and a liability statement is included in all contracts.  |
| SCIDPDA must maintain public liability insurance in an amount acceptable to the Mayor.  |               |    | SCIDPDA maintains a \$1 million liability policy, which is sufficient according to the Department of Finance's Risk Manager.  |
| A certificate of liability insurance is submitted with the annual report naming the City as an additional insured.  |               |    | Liability insurance was filed with the 2001 Annual Report. SCIDPDA will send the Risk Management Office a copy of their liability certificate and declaration pages.  |
| <b>BOND PAYMENT GUARANTY AGREEMENT</b>  |               |    |   |
| Principal payments on bonds may commence no later than 24 months after issuance of the bonds.   |               |    | SCIDPDA began paying on principal 20 months after issuance of the bonds.  |
| A corrective action plan may be proposed or imposed if the facility's actual net rental income, total income, total expenses, net operating income, or net cash flow in any fiscal year varies by more than 5 percent from the projections on the pro forma budget.   |               |    | Net rental income, total expenses and net operating income for the Village Square I fell below the pro forma budget projections from 1998 to 2001. SCIDPDA has not notified the City about Village Square I's non-compliance but they are exploring a formal corrective action plan to resolve the situation. |
| Deposit all Village Square Project Revenues into the Revenue Account, which shall be used only for the purposes identified in order of priority:<br>1) Interest Subaccount; 2) Principal Subaccount; 3) Debt Service Reserve Subaccount; 4) operation and maintenance expenses; 5) reimbursement to City; 6) Capital Reserve Account and Operating Reserve Account; and to 7) retire the bonds. |               |    | The Revenue Account balance totaled \$107,723 as of December 2001. The bond trustees handle this function and SCIDPDA reconciles the account monthly.   |
| Establish and maintain an Interest Subaccount. Deposit one-sixth of the interest due on the bonds into that account by the 20th of each month.  |               |    | The Interest Subaccount totaled \$210,531 as of December 2001. The bond trustees handle deposits and SCIDPDA's Finance Director reconciles the account monthly.   |
| Establish and maintain a Principal Subaccount. Deposit one-twelfth of the principal on the bonds by the 20th of each month.   |               |    | The Principal Subaccount totaled \$66,535 as of December 2001. The bond trustees handle deposits and SCIDPDA's Finance Director reconciles monthly.   |
| Establish and maintain a Debt Service Reserve Subaccount in the amount of the maximum debt service on the bond. (Calculated to approximately \$600,000 by the Office of Management and Planning.)   |               |    | The Debt Service Reserve Account totaled \$673,147 as of December 2001, which is acceptable to the City Finance Department.   |
| Establish and maintain a Capital Reserve Account. Deposit one-twelfth of the amount budgeted for annual Capital Reserves into the account by the 20th of each month.  |               |    | The Capital Reserve Account totals \$47,910 as of December 2001. SCIDPDA manages this account. The funds are not constant as they are drawn to make building repairs.   |

| ACTIVITIES/REQUIREMENTS  | IN COMPLIANCE |    | COMMENTS  |
|--|---------------|----|---|
|  | YES           | NO |   |
| Establish and maintain an Operating Reserve Account with a minimum balance of no less than \$300,000. Deposit one-twelfth of the principal on the bonds by the 20th of each month. |               |    | The Operating Reserve Account balance fell to \$20,665 as of June 2002 to cover contractor litigation expenses. SCIDPDA restored the required funds as of June 30, 2002 and is currently in compliance with the bond requirements. Monthly account deposits are not consistent, but yearly deposit requirements were met. |
| <b>SCIDPDA ACCOUNTING POLICIES AND PROCEDURES</b>  |               |    |   |
| Procedures are established for processing and filing rental and grant income.  |               |    | Obtained written procedures for processing SCIDPDA rental and grant income. Confirmed filing procedures with SCIDPDA staff. Audit staff provided a self-administered cash-handling questionnaire for further improvements.  |
| Procedures established for rental cash receipts and other receipts.  |               |    | Obtained written procedures for handling cash receipts. Procedures contain separation of duties.  |
| Accounts payable authorization levels are established for each SCIDPDA division.   |               |    | Obtained written procedures for accounts payable authorization levels. The individual approving the invoice must confirm budget availability.   |
| Authorization established for purchase orders, contracts, change orders, recurring and non-recurring expenditures.   |               |    | Obtained written procedures for authorizing purchase orders, contracts, change orders, recurring and non-recurring expenditures. The individual approving the invoice must confirm budget availability.   |
| Check disbursement—checks and invoices are forwarded to Executive Director and/or a Board member for review and signature.   |               |    | Obtained written procedures for check disbursement. Audit staff expressed concern regarding the high number of check signers.   |
| Approval needed to procure services from new vendor along with a W-9 form.   |               |    | Obtained written procedures for the procurement of services.  |
| Records retention procedures are established.  |               |    | Obtained written procedures for records retention. However, the procedures are more oriented toward filing rather than records retention. SCIDPDA is developing a records retention policy.   |
| Purchasing policy is established with procedures for goods, supplies and materials; professional service contracts; noncompetitive proposals; and direct payments.                 |               |    | Obtained written procedures for purchase of goods, supplies and materials; professional service contracts; noncompetitive proposals; and direct payments.   |
| Petty cash policy is established for purchases less than \$50.   |               |    | Obtained written procedures for handling petty cash.  |
| Payroll policy established and handled by outside contractor.  |               |    | Obtained written procedures for payroll processing. Paychecks are directly deposited into employee accounts.  |
| Fixed assets policy is established and any asset valued at more than \$500 and/or with a useful life of one or more years will be capitalized.                                     |               |    | Obtained written policies and procedures for the acquisition and disposal of fixed assets. Capital depreciation expenses are to be reconciled monthly.  |
| Donated goods and services policy is established.  |               |    | Obtained written policies and procedures for receiving donated goods and services.  |
| <b>MISCELLANEOUS POLICIES AND PROCEDURES</b>   |               |    |   |
| Technology Policy is established for e-mail and Internet usage.  |               |    | Employee Handbook includes policy on e-mail and Internet usage.   |
| Personnel Policy/Employee Handbook is available.   |               |    | A comprehensive Employee Handbook was updated April 2001.   |

**APPENDIX 3**  
**COMPARISON OF THE PRO FORMA BUDGET PROJECTIONS**  
**AND THE AUDITED FINANCIAL STATEMENTS FOR**  
**VILLAGE SQUARE I: 1998 to 2001**

As shown below, Village Square I net rental income fell 27 percent below pro forma budget projections in 1998 and fell 7 percent in 2000. Although total revenues from 1998 to 2001 surpassed pro forma budget projections from 6 to 42 percent due to other income, SCIDPDA's total expenses exceeded the pro forma budget projections by 59 to 303 percent. This increase was due to litigation fees incurred due to construction project cost overruns and defective workmanship. Consequently, the net operating income for Village Square I fell 28 to 76 percent below pro forma budget projections from 1999 to 2001. SCIDPDA's net operating income would have surpassed the pro forma budget projections from 5 to 35 percent between 1998 and 2001 if litigation expenses were not incurred.

|  | <b>1998<br/>Pro Forma</b> | <b>1998<br/>Audited</b> | <b>Percent<br/>Change</b> | <b>1999<br/>Pro Forma</b> | <b>1999<br/>Audited</b> | <b>Percent<br/>Change</b> | <b>2000<br/>Pro Forma</b> | <b>2000<br/>Audited</b> | <b>Percent<br/>Change</b> | <b>2001<br/>Pro Forma</b> | <b>2001<br/>Audited</b> | <b>Percent<br/>Change</b> |
|--|---------------------------|-------------------------|---------------------------|---------------------------|-------------------------|---------------------------|---------------------------|-------------------------|---------------------------|---------------------------|-------------------------|---------------------------|
| Revenues   |                           |                         |                           |                           |                         |                           |                           |                         |                           |                           |                         |                           |
| Rental Income  | \$ 908,141                | \$ 664,100              | -27%                      | \$ 941,718                | \$ 912,625              | -3%                       | \$ 969,970                | \$ 899,529              | -7%                       | \$ 999,069                | \$ 983,692              | -2%                       |
| Interest Income  | 38,423                    | 77,306                  |                           | 30,377                    | 51,315                  |                           | 30,624                    | 82,643                  |                           | 31,369                    | 48,200                  |                           |
| Other  | -                         | 600,496                 |                           | -                         | 268,984                 |                           | -                         | 79,579                  |                           | -                         | 104,787                 |                           |
| Litigation Revenues  | -                         | -                       |                           | -                         | -                       |                           | -                         | -                       |                           | -                         | \$ 78,569               |                           |
| <b>Total Revenues</b>  | <b>\$ 946,564</b>         | <b>\$ 1,341,902</b>     | <b>42%</b>                | <b>\$ 972,095</b>         | <b>\$ 1,232,924</b>     | <b>27%</b>                | <b>\$ 1,000,594</b>       | <b>\$ 1,061,751</b>     | <b>6%</b>                 | <b>\$ 1,030,438</b>       | <b>\$ 1,215,248</b>     | <b>18%</b>                |
|  |                           |                         |                           |                           |                         |                           |                           |                         |                           |                           |                         |                           |
| Expenses   |                           |                         |                           |                           |                         |                           |                           |                         |                           |                           |                         |                           |
| Regular Expenses   | \$ 259,291                | \$ 412,577              | 59%                       | \$ 263,908                | \$ 290,952              | 10%                       | \$ 273,759                | \$ 301,187              | 10%                       | \$ 284,003                | \$ 323,554              | 14%                       |
| Litigation Expenses  | -                         | -                       |                           | -                         | 773,867                 |                           | -                         | 236,659                 |                           | -                         | 354,553                 |                           |
| <b>Total Expenses</b>  | <b>\$ 259,291</b>         | <b>\$ 412,577</b>       | <b>59%</b>                | <b>\$ 263,908</b>         | <b>\$ 1,064,819</b>     | <b>303%</b>               | <b>\$ 273,759</b>         | <b>\$ 537,846</b>       | <b>96%</b>                | <b>\$ 284,003</b>         | <b>\$ 678,107</b>       | <b>139%</b>               |
|  |                           |                         |                           |                           |                         |                           |                           |                         |                           |                           |                         |                           |
| <b>Net Operating Income<br/>(with Litigation)</b>  | <b>\$ 687,273</b>         | <b>\$ 929,325</b>       | <b>35%</b>                | <b>\$ 708,187</b>         | <b>\$ 168,105</b>       | <b>-76%</b>               | <b>\$ 726,835</b>         | <b>\$ 523,905</b>       | <b>-28%</b>               | <b>\$ 746,434</b>         | <b>\$ 537,141</b>       | <b>-28%</b>               |
|  |                           |                         |                           |                           |                         |                           |                           |                         |                           |                           |                         |                           |
| <b>Net Operating Income<br/>(without Litigation)</b>   | <b>\$ 687,273</b>         | <b>\$ 929,325</b>       | <b>35%</b>                | <b>\$ 708,187</b>         | <b>\$ 941,972</b>       | <b>33%</b>                | <b>\$ 726,835</b>         | <b>\$ 760,564</b>       | <b>5%</b>                 | <b>\$ 746,434</b>         | <b>\$ 891,694</b>       | <b>19%</b>                |
| Source: SCIDPDA's 1998 to 2001 Independent Auditors' Reports and 1996 Bond Payment Guaranty Agreement pro forma budget for Village Square I. Debt service and depreciation are not included in these calculations. |                           |                         |                           |                           |                         |                           |                           |                         |                           |                           |                         |                           |

## APPENDIX 4

### SCIDPDA RISK MATRIX

The SCIDPDA risk matrix highlights the relative degree of risk and the importance of current SCIDPDA issues to various stakeholders. The importance and level of risk for the general compliance issues were assigned based on the magnitude of SCIDPDA's numerous responsibilities as a public corporation. The importance and level of risk for acquisition and development projects were assigned based on the financial impact on each stakeholder group.

| Issue   | Importance to PDA | Risk to PDA | Importance to City | Risk to City | Importance to Community | Risk to Community |
|---|-------------------|-------------|--------------------|--------------|-------------------------|-------------------|
| General Compliance Issues                                       |                   |             |                    |              |                         |                   |
| Bond Payment Guaranty Agreement for Village Square I            |                   |             |                    |              |                         |                   |
| Potential Bond Payment Guaranty Agreement for Village Square II |                   |             |                    |              |                         |                   |
| New Central Apartment Building Purchase                         |                   |             |                    |              |                         |                   |
| Bush Hotel Earthquake Repairs                                   |                   |             |                    |              |                         |                   |

| CONCERN BASED ON COMBINED IMPORTANCE AND LEVEL OF RISK |
|--|
| HIGH CONCERN AREAS                                     |
| MEDIUM CONCERN AREAS                                   |
| LOW CONCERN AREAS                                      |



**ADDENDUM**  
**SCIDPDA EXECUTIVE RESPONSE**

SEATTLE CHINATOWN INTERNATIONAL DISTRICT PRESERVATION AND DEVELOPMENT AUTHORITY



August 27, 2002

Ms. Susan Cohen  
Office of the Seattle City Auditor  
700 Fifth Avenue, Suite 2410  
Seattle, WA 98104-5030

Dear Ms. Cohen:

The Seattle Chinatown International District Preservation and Development Authority (SCIDPDA) is chartered by the City of Seattle to preserve and develop Seattle's International District through the renovation and construction of affordable housing and community facilities. SCIDPDA has developed complex mixed-use facilities that are heralded by the City of Seattle, and recognized nationally, as models for other neighborhoods and cities. Most developers would never develop these high impact projects. SCIDPDA will continue to take calculated risks in order to meet the needs of our City's underserved communities.

The Auditor's Compliance Review indicated SCIDPDA met 94% of the City's requirements. As you know, due to unforeseen litigation on ID Village Square 1 we were non-compliant in two areas. As your report notes, if the litigation expenses didn't occur we would have met or exceeded the reserve requirements and surpassed all budget projections. SCIDPDA has reviewed the Seattle City Auditor's Compliance Review of August 26, 2002 and in response to the items listed under the Action List, SCIDPDA will:

1. At the end of each fiscal year, ensure that the balance of the required reserve accounts shall be at the required level and will report such balances to the Department of Finance;
2. Upon completion of the annual audit, performed by an independent auditor, notify the PDA Coordinator and the Department of Finance when the ID Village Square 1 net rental income, total revenues, total expenses or net operating revenue varies by more than 5% from the pro forma budgets included in the IDVS Bond Guaranty Agreement;
3. Propose a corrective action plan if necessary within 45 days of determining a 5% variation of the pro forma budgets included in the IDVS Bond Guaranty Agreement which would occur after the annual audit;
4. Consult with the Department of Finance to investigate the updating of projected budgets for the IDVS 1. However, we anticipate variances will exceed 5% due to the market's volatile economic conditions.

Thank you and please feel free to contact me or Wendy Watanabe with any further questions.

Sincerely,

A handwritten signature in purple ink, appearing to read "Sue Taoka", written over a light blue horizontal line.

Sue Taoka  
Executive Director



BUSH-ASIA CENTER • 409 MAYNARD AVE. S • P.O. BOX 3302 • SEATTLE, WA 98114  
PHONE: 206-624-8929 • FAX: 206-467-6376

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## Office of City Auditor's Report Evaluation Form

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Your feedback helps us do a better job. If you could please take a few minutes to fill out the following information for us, it will help us assess and improve our work.

\* \* \* \* \*

Report: **Seattle Chinatown International District Preservation and Vevelopment Authority Compliance Review**

Please rate the following elements of this report by checking the appropriate box:

|                        | <b>Too Little</b> | <b>Just Right</b> | <b>Too Much</b> |
|------------------------|-------------------|-------------------|-----------------|
| Background Information |                   |                   |                 |
| Details                |                   |                   |                 |
| Length of Report       |                   |                   |                 |
| Clarity of Writing     |                   |                   |                 |
| Potential Impact       |                   |                   |                 |

Suggestions for our report format: \_\_\_\_\_

\_\_\_\_\_

Suggestions for future studies: \_\_\_\_\_

\_\_\_\_\_

Other comments, thoughts, ideas: \_\_\_\_\_

\_\_\_\_\_

Name (Optional): \_\_\_\_\_

Thanks for taking the time to help us.

Fax: 206-684-0900

Mail: Office of City Auditor, 700 Fifth Avenue, Suite 2410, Seattle, WA 98104-5030

Call: Susan Cohen, City Auditor, 206-233-3801

E-Mail: [auditor@ci.seattle.wa.us](mailto:auditor@ci.seattle.wa.us)

Drop by and visit: 24<sup>th</sup> Floor, Key Tower

Website: [seattle.gov/audit](http://seattle.gov/audit)